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## Valuation Accuracy and Certainty in Developing Countries- A Socio-Political Analysis

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### Abstract

Valuation services have become increasingly less credible in Tanzania despite an impressive digital data penetration from an insignificant 115,000 people at the end of 2000 to over 11.5m by June 2017. Practicing valuers have been accused of valuing that which never existed, overvaluing and undervaluing to suit different situations.

The key research problem for the study revolved around the lack of measure on reliability and precision of value estimates as was once observed by Dell (2013). While findings from the interviews revealed little appreciation of the intertwin relationships that exist between real estate and finance markets amongst practising valuers, it was evident, external influences mainly through government guidelines and certification processes had strong impact on the valuation estimates. The local practice is apprehensive of strict adherence to government circulars on valuation assessment and reporting standards, which to a large extent might account for the limited valuers' inquisitiveness on the dynamics of value affecting factors. It was also established that practicing valuers have limited understanding of the general investment market which as Scarrett (2008) observes is crucial in trying to interpret the working of property investment markets.

The paper observes a dichotomy between values derived from local market operations and those estimated by valuers. The paper attributes this to reliance on government published guidelines and limited continued professional training amongst valuers.

The paper concludes that valuation accuracy and certainty in developing countries are influenced by the limited roles that professional valuation boards exercise in keeping their members in pace with development in the profession.

**Keywords:** Valuation Accuracy; Reliability; Valuation Guidelines.

### 1. Background of the Study

Early study attempts to establish possible relationship between professionalism and government policy influence or bureaucracy are possibly those edited by (Richard, 1968). This has been followed up by a number of studies who likened professionalism to an elite body of individuals possessing specialist skills that prevent other persons from claiming recognition in those areas of specialization as observed by (David & Joseph, 1982). Although the discourse centered around law, medicine and public administration, parallels can easily be drawn between those debates and what is happening in the developing world particularly with the valuation profession.

The term 'profession' is understood to mean an occupation model that consists of attributes which distinguish one occupation to others. These attributes will include educational background, set standards for entry into the profession, sense of calling and importantly the attitudes of the professing individuals. The central theme in the discourse was to what extent presence of professionals in an organization, given their particular attitudes and codes of conduct, affect the organizational structure. Given the varied sizes and sophistication amongst local governments, it was considered necessary for central government and national level professional boards to exercise some monitoring and guidance to the professionals working in municipal or local governments on one hand, but, on the other it was imperative to protect interests of the general public against possible exploitation and deceit by the professionals. As a result, professional services have to a large extent been influenced by what is happening at the centre through either direct issuance of guidelines in the form of government policy statement, professional standards, code of conduct and established chain of control.

In the context of valuation profession, there are two distinct contexts that one can discern. In the mature market economies, valuation assessments are a result of evaluation of market place factors that underpin values of the subject property. Accuracy of valuation estimates is therefore measured against the ability of the valuer to interpret market price trends for the assets that he or she has to value. This has not been the case in most of countries that still embrace elements of centralized form of economy and those whose real estate markets are relatively inactive and with low numbers of trained valuers such as Tanzania. In these countries, governments have taken the initiatives of specifying the skills required but also providing guidelines on valuation methodology that includes prescribing value rates to be used, reporting procedures and certification. These interventions have been widely accepted and enforced through government circulars and even legislation such as the Valuation and Valuers' Registration Act of 2016 in Tanzania. However the interventions have not solved the valuation problem as discussed in the rest of this paper.

Valuation services have become increasingly less credible in Tanzania despite an impressive digital data penetration from an insignificant 115,000 people at the end of 2000 to over 11.5m by June 2017. The increasing number of valuations done in the country from an average of 600 Valuation Approvals in 1995 to over 16,000 in 2016 (URT, 2017), has not been matched with increased customer satisfaction. Indeed, the local media has repeatedly pointed fingers at the local practicing valuers for valuing that which never existed, overvaluing and undervaluing to suit different situations as well as the valuers not being accountable for their misconduct.

### *1.1 The Valuation Accuracy Problem*

Over the last four decades, there have been serious debates on reliability of valuation estimates by practicing valuers both in the mature market-economies of Europe and America and the less mature markets in Africa. Almost all the debates have proceeded from the realization that valuations are highly characterized with significant uncertainty in the market. Assessed value accuracy is dependent upon the ability of the valuer to research the market to derive informed assumptions that account for the potential of an asset price in the market (Kucharska, 2013). In 1988, (Mary Jo, et al., 1988), for example, held the view that accuracy in valuation largely depended on the extent the adopted valuation method was able to validate comparison of a contingent market and a simulated market. They further argued that accuracy in valuation was a matter of degree. In the United Kingdom, the debates addressed problem of valuation bias amongst valuers, client influence on valuations, through to the influence of valuers on the property investment market during 1990s and towards 2000's, and compliance with professional valuation standards. Outstanding contributions were made by scholars from University of Reading led by scholars such as (Brown, et al., 1996), (Crosby, et al., 1994), and (Crosby, et al., 1998). The debate moved to different directions but largely arguing large margin of value variations amongst valuers was a big test to the integrity of the valuation profession. (Mackmin, 1985) had earlier on even wondered whether there were any professionals at all working in

the residential market. Discussion on resulting liability for what was considered unjustified valuation variation amongst valuers were hotly debated by those who considered negligence as reason for valuation accuracy in (Lavers, 1994), (Mallinson, M, 1994), (Lizieri & Venmore-Rowland, 1991), and (Murdoch, 1997).

In the developing countries, existing literature on the subject of valuation accuracy dates back to early 2000 and most of it is from Nigeria, two from Tanzania and some marginal consideration in the case of Kenya. The most commonly identified cause for valuation accuracy estimates in these countries is lack of or inadequate market data for adoption of the direct comparison valuation approach. (Abiojola & Oletobo, 2011) lists the causes of valuation inaccuracy to include dearth of market data evidence, outdated valuation approach, inadequate academic training, inexperience in valuation practice but more interesting clients' influences. They conclude however what was needed was a central databank and mandatory continued professional development programmes and quiet on the training as well as the clients' influence. In a study carried out during 2015 also in Nigeria attributed valuation inaccuracy to lack of valuation standards, lack of regulatory framework, wrong choice of method adopted and agreed with the earlier study cited above that clients' influence and inadequate training were major causes (Effiong, 2015). Effiong (2015) further identified negligence as possible explanation in contrast to the other studies. In stark contrast with the two publications on Nigeria, (Ayedum, et al., 2011) blamed valuation inaccuracies to the two professional boards in Nigeria, the Nigerian Institution of Estate Surveyors and Valuers and the Valuation Registration Board. They criticised an earlier research by (Ogumba, 1997) who had established that Nigerian valuations were a good proxy for market prices. They established a wide variance of between 5% and 50% for valuations carried out by different valuers over the same properties in Lagos Metropolis. The conclusion of the Ayedum, et al (2011) was the need for practising valuers in Nigeria to comply with international valuation standards. In a more recent study again in Nigeria, a strong relationship between valuation accuracy and suitability of data sources was established (Abidoeye, 2018). Within the Eastern Africa region very little has been researched upon. In Tanzania earlier study was by Geho 2000 (unpublished) who aligned his study along the lines of Crosby et al (1998) mainly comparing variance levels between valuers over the same property. (Mwasumbi, 2014) extended the discussion from the Nigerian literature focusing on the undue influence on valuers from clients. She however, cautioned, bowing to external pressure should not be considered to

*"... provide justification for valuers not to maintain independence and objectivity. Valuers have professional duty to ensure at all times that they are knowledgeable, updated and have the necessary skills for accomplishing valuation assignments as per normative valuation model. Failure to do so puts valuers in a precarious situation potential for litigation..."* (Mwasumbi, 2014:233).

What is obvious in valuation practice in countries like Tanzania is limited appreciation of financial and real estate markets operate and influence each other. Although the arguments propounded by Effiong (2015) and Abiojola & Oletobo (2011) on 'ineadequate training', are not pursued to explain what has been lacking in the training of valuers in Nigeria, there are evidences that most of the available curricula on valuation in developing countries are founded on the Built Environment Studies and very few incorporate the working of the financial markets in the studies as was once argued by (Karl-Werner, 2001)

In recent times, there has emerged an interest in understanding factors that are likely to influence accuracy of valuation assessments. Valuation as a discipline is generally considered neither as science nor art, it is as observed by Amidu (2011) a judgement process that is heavily influenced by human behavior that requires high level of skills development to enable objective valuation decision.

## 2. Methodology

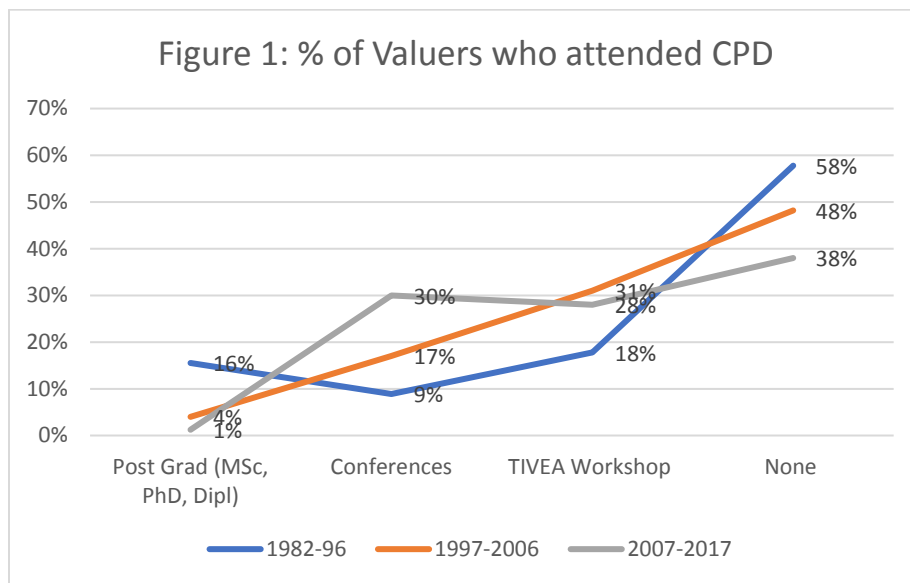
The key research problem revolved around the lack of measure on reliability and precision of value estimates as was once observed by Dell (2013), in the case of developing countries with some special focus on Tanzania. It was intended to re-assess objectivity of valuations in the context of Tanzania in line with the acceptable norms in international valuation standards, strict national laws and regulations. It is asymptotic analysis of the valuers' practicing behavior in the context of the existing education and professional practice levels in Tanzania.

The main objective of the study was therefore to establish whether or not the Tanzania valuation practice has been consistent with the obtaining market conditions, the practical challenges and the extent to which traditional valuation approaches have remained relevant to the business environment. The scope of the research was limited on account of a number of reasons. It centered on literature review especially of documentary sources produced in the wake of formulating the first Valuation law in Tanzania (the Valuation and Valuers Registration Act No. 7 of 2016). Some limited interviews were carried out to seek opinions on valuation accuracy, explanation of the ever increasing complaints against practising valuers and the influence that government valuation guidelines might have had on the valuers' work in the country. Online and telephone interviews were carried out with a total of around 200 respondents that included valuers, land use planners, economists, lawyers and un-classified members of the public. Some of the findings were borrowed from a previous study carried by the author for the Eastern Africa Raw Oil proposed oil pipeline project that stretches over 1,400km across Tanzania to Uganda.

## 3. Findings

It was evident from the interviews, that there had been little appreciation of the intertwin relationships that exist between real estate markets and finance markets. Practicing valuers appear not to have bothered to develop an understanding of the general investment market which as Scarrett (2008) observes is crucial in trying to interpret the working of property investment markets. It is also the case that while the local practice seems to adhere to the general valuation standards provision regarding reporting standards, there is an observation that government valuation guidelines on value assessment have to a large extent limited the valuers' inquisitiveness on the dynamics of value affecting factors. While this may partly explain the dichotomy between values derived from local market operations and opposed those derived by applying government rates, it was established approximately only 50% of practising valuers interviewed attended post graduate degrees, conferences or meetings. 57% of those who graduated during 1978-1996 (Advanced Diploma holders of the then Ardhi Institute) had not attended any further training after graduation as indicated in Figure 1, while those graduated with Bachelor Degree of the then University College of Lands and Architectural Studies recorded a higher percentage towards refresher programmes but fewer in PhD or Masters.

The current economic conditions in Tanzania has been very positive with an impressive annual economic growth sustained at between 5 and 7% for more than 6 years now. The real estate sector has been both vibrant and buoyant largely owing to the launching of the 2010 Housing Finance Project (HFP) and legislative framework that reintroduced mortgage finance and condominium titles in 2008. As a result confidence in rentals and price growth ought to seem to be high. The paper hypothesises the probable explanation of the expressed concerns evolves around rigid adoption of traditional valuation approaches in Tanzania amidst fast evolving real estate markets. An attempt is made to evaluate the practical problems facing valuers in Tanzania and how these problems could be addressed. It urges valuers to adapt themselves to the changing business dynamics and appreciate the other participants' roles in the emerging real estate market.



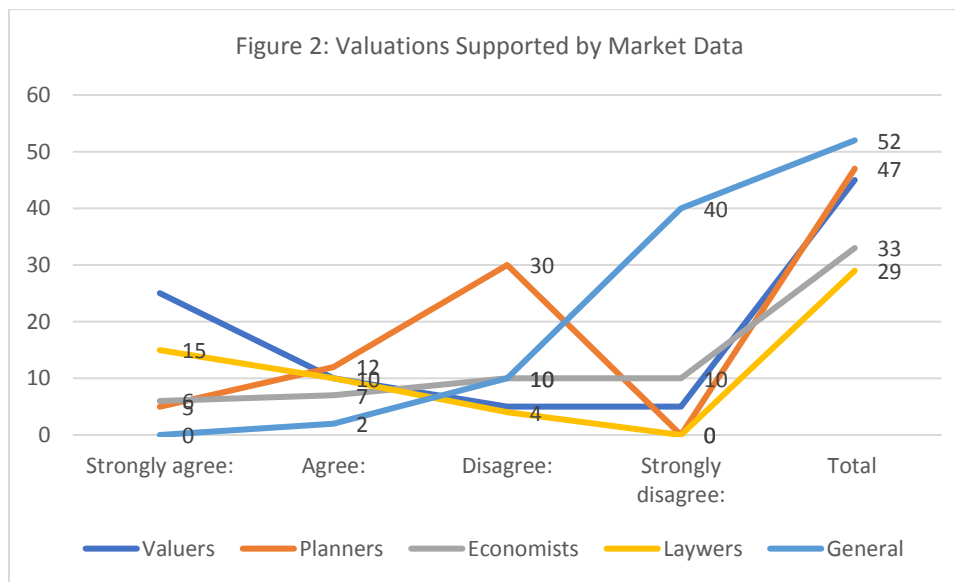
### 3.2 Credibility of Valuation Estimates

In a paper along the same lines by the author in 2017, it was established there was growing concern on the lack of trust and diminishing confidence levels of the valuation professional services in Tanzania. The possible explanation was routed in the growing apathy among the valuers to advance their professional skills in their areas of operations. For example out of 433 members of the Tanzania Institution of Valuers and Estate Agents (TIVEA), only 28 had attempted to do second and third degrees after their Bachelors Degree (extracts from TIVEA Membership list). The number of TIVEA members attending conferences both within the country and outside is hardly 20. Participation to annual meetings of the TIVEA is on average of 100 members. On the other hand, in order for an individual to practice and certify valuation report, he or she must have practised for five years under a Fully Registered Valuation Surveyors then with the National Council of Professional Surveyors (NCPS) but after the enactment of the Valuation and Valuers (Registration) Act of 2016 by the Valuation Board. In addition they have to write a thesis and produce a logbook. The total number of registered valuers is hardly 150 out of the estimated number of over 1,600. There is only one training university for valuers in Tanzania whose initial enrollment during 1978-2008 was limited to around 20 students but in the post 2008, the numbers swelled to an average of 100 per annum. It is argued that the low level of registration of practising valuers is attributable to stringent registration process. But in a fact, the probable explanation would be lack of incentive to register. Most of the valuers work in the public sector where the valuations are carried out on basis of guidelines and valuation rates issued by the office of Chief Government Valuer. Strict compliance of issued government valuation rate is observed and in effect limit particularly the young and fresh graduate values inquisitiveness on adapting to new thinking in the valuations. All valuations have to be approved by the Chief Government Valuer. This emanated from an old circular of 1969 (Government Circular No. 1) which was necessary at the time on account of limited number of valuers and the fact that most of the businesses were being run by government during the socialist doctrine era. In the wave of liberalizing the national economy to a free market during 1990's, the approval of valuation reports both in the private and public sectors has to be by the Chief Government Valuer. Consequently the office of Chief Government Valuer has been issuing guidelines which were meant to be on year-to-year basis. This has not materialized in a number of years. Consequently, while market rates in land, rent, buildings and chattles have been changing the valuation rates have remained static over the years.

The business community has however expressed comfortability with the procedure for approval by Chief Government Valuer as it presumably protect their interests. In recent years, commercial banks have been alarmed by the high rate of non-performing loans (in 2017 alone, according to the Bank of Tanzania- Annual Report, 19 banks out of the 53 banks in Tanzania recorded up to 51% of their loans as non-performing), and failure to recover the loans advanced against collaterals values. As a result, all banks maintain a panel of Valuation Firms that they have confidence in and in addition to the Chief Government Valuer guidelines, they issue guidelines on valuation methodology and demand disclosures. Even with these efforts, there has been a steady increase of valuation inaccuracy and eroded credibility for valuation.

### 3.3 Other Professional Perception of Valuation Accuracy

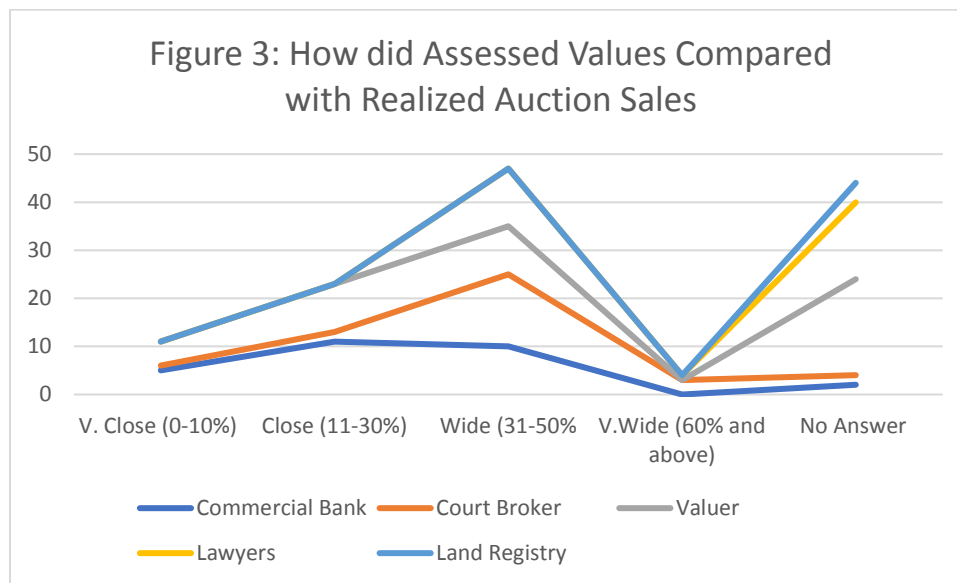
In the interview, it was interesting to note that even valuers had reservation on their own valuation.



An online interview indicated varying degrees of appreciation valuations carried in Tanzania are based on market data. Out of 45 valuers who responded 25 believed valuations are based on market data and only 5 disagreed. Those who believed their valuations were supported by market data, were of the view that government rates reflected the market situation. Bank officers interviewed were more skeptical and explained the increasing trend on non-performing loans as being among reasons a result of 'poor collateral valuation'. Figure 2 maps the findings from the interviews. Over 80% of lawyers (25 out of 29) believed valuations are based on market data which was negatively contrasted with the general public (no particular affiliation to a particular discipline) who thought they were not as shown in Figure 2.

### 3.4 Valuation Estimates in Contrast to Sale Prices

When probed on what extent were the valuation estimates in lending, commercial banks expressed concern with about 75% submitting the range of variation was between 30 and 50%. Court Brokers had a different view which could be explained from the fact that they are the ones carrying out the auctions. Figure 3 sums up the opinions.



### 3.5 Compliance to Standards

Valuers are required under the IVS and several other standards to ensure that the valuation that they do is properly supported by sufficient evidence. Such evidence can be had from physical inspection of the asset, inquiries, computation and analysis. While the local practice seems to adhere to the general provision regarding reporting standards such as setting out the scope of assignment, dates of inspection and the name of valuers who carried out the inspection, there is an observation that general copy and paste syndrome is rampant in the report, some to the extent of misleading the reader of the report. As a result, out of 25 reports examined from different valuation firms, only 6 reports seemed to have taken deliberate action to specifically reflect about valuation, drew up the relevance of what it was being reported and therefore lending the report more credibility. In most of the reports, it was coincidentally found the size of the valuation reports were more or less the same averaging between 15 and 20 pages for residential properties (Komu, 2017). A closer examination revealed the first 11 to 13 pages were on explanation of the process with different heading such as 'Introductory Notes', 'Instructions', 'Valuation Approach' while the remaining 5 to 9 pages related to detailed description of the property being valued and the worksheets. These last pages were unique to each of the valuation report studied unlike the first part which were both in content the same across the board. This may suggest that since this part of the report is an attempt to set out in clear terms the factual data and necessary assumptions made, then the Valuer may not have had time to consider this in his specific subject of valuation.

### Conclusion of the Study

The key conclusion of the study is valuation accuracy and certainty in developing countries are likely to be influenced by the limited roles that professional valuation boards exercise in keeping their members in pace with development in the profession. It is

The enthusiasm with which Tanzania embraced and introduced valuation as a discipline in its education system has been acknowledged around the African region. What we however note is the ease with which local practising valuers

have allowed themselves to fall behind changes that are taking place in their areas of discipline and clung to the old traditional approaches in valuing assets. But more fundamental is the fact that valuation guidelines developed and distributed by the government have given practising valuers unfounded confidence on their valuation, disinvited them in glamouring for new ideas and even trying to work out the rates by themselves. The explanation for valuation inaccuracy could be explained by these two factors mainly because, the traditional approaches have been outpaced by changing business data management systems and in particular the finance-related data. The guidelines take at least two years to develop and by the time they are released for use by valuers, they are already too old. The current land value rates that are in use were researched upon in 2014 and are dated 2016.

Current development in the global economy dictates no other way than unification of standards in various disciplines. So long as dealings in real estate continuously become footloose on account of maturing of capital markets and trading across the borders is made easier with improved communication technology, the need for harmonising valuation processes and methodology cannot be over-emphasized. It is therefore important that Tanzania valuation practice is documented so as to identify areas that can be improved and thus enable Tanzania to join the global agenda for a unified approach in the discharge of the valuation services by the valuers on one hand, and mutual understanding of the roles and responsibilities of the parties to valuation services on the other.



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**Appendix A.**

**Table 1.A: Are compensation Values supported by Market Data?**

	Strongly agree:	Agree:	Disagree:	Strongly disagree:	Total
Valuers	25	10	5	5	45
Planners	5	12	30	0	47
Economists	6	7	10	10	33
Laywers	15	10	4	0	29
General	0	2	10	40	52

**Table 2.A: How did Assessed Values Compared with Realized Auction Sales**

	V. Close (0-10%)	Close (11-30%)	Wide (31- 50%	V. Wide (Over 60%)	No Answer	Total
Commercial Bank	5	11	10	0	2	28
Court Broker	1	2	15	3	2	23
Valuer	5	10	10	0	20	45
Lawyers	0	0	12	1	16	29
Land Registry	0	0	0	0	4	4